New Jersey
Natural Gas

September 1, 2006

Ms. Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Re: Universal Service Fund Program
BPU Docket No. EX00020091

Dear Ms. Izzo:

Atlantic City Electric Company, New Jersey Natural Gas Company, Public Service Electric and Gas Company, and South Jersey Gas Company (the Companies) support the efforts of ~~the New Jersey Board of Public Utilities (BPU) to evaluate the state's Universal~~ Service Fund (USF) program and commend the BPU for its leadership in striving for continuous improvement. We appreciate the opportunity to provide comments on the straw proposal.

<u>Overall</u>

The Companies have been active participants in the USF discussions, since the initial meeting in February 2000. We understand the magnitude of the effort necessary to launch a statewide program that interacts with numerous state agencies, utilities and Community Action Programs (CAP) Agencies. We recognize the depth of the policy discussions that occurred, including the evaluation of trade-offs made to launch such a large, comprehensive program in such a short period of time. Most importantly, we appreciate the difference this program has made for thousands of New Jersey households. While any program launch of this magnitude will face challenges, it is appropriate to revisit some elements of the overall program design, now that the program is fully operational and continuing to serve New Jersey households in need.

At the June 7, 2006 BPU agenda meeting, Applied Public Policy Research Institute for Study and Evaluation ("APPRISE") noted that, based upon their review, the New Jersey USF program had "reached the most participants, in the shortest period of time, at the lowest administrative costs, with the fewest implementation problems." While every program has room for improvement, such a strong statement from an independent evaluator is a testament to the strength of the program. The successful launch would not have been possible without the support of the Board, the collaborative efforts of the USF Working Group, and the dedication of the employees of the state, the utilities, advocacy groups, and the CAP agencies.

Predictability for the Annual Budget

In regard to the BPU Staff straw proposal of June 14, 2006 ("Straw Proposal"), we understand the concerns raised by BPU staff regarding the "fully funded" principle for the program. We appreciate that as the program expenses have grown, the financial burden has shifted to many other working families who do not qualify for these programs. While the desire may be a goal of predictability for an annual budget, it is important to note that some significant cost drivers are beyond the control of any entity within the state. Both electricity and natural gas commodity costs and federal LIHEAP funding levels will directly impact the annual cost for the USF program and to a great extent are beyond the control of any party in this proceeding.

As we continue to build experience, we should improve the predictability of some elements of the program. Since inception, it has been hard to rely on year to year data due to on-going program modifications and the nature of the bulk enrollment of thousands of customers at launch. Because of this, the early years were not strong indicators for single year activity. Changes may not be representative of a typical year.

During the USF workshop discussions on August 10th and 11th ("Workshops"), some participants expressed concern about the potential conflict between the fixed funding concept and greater customer outreach, which would likely increase overall funding by enrolling additional eligible customers. It is critical that all goals be synchronized with program decisions and coordinated with the work of all stakeholders in the delivery of the program.

Fresh Start Program

The Straw Proposal suggested eliminating the Fresh Start program. We would like to note that some of the Fresh Start program design decisions were influenced by the desired target date for implementation and available resources. The APPRISE report cited program costs of $22 million for 2004-05 program year. However, updated actual information and projections from the joint utility rate filing made on June 30, 2006 indicate that the estimated cost is approximately half this amount. Since the Fresh Start Program is only a one time benefit, we would expect fewer participants per year than those in the initial enrollment group. Accordingly, we would request that any assessment of whether there is a need to modify or eliminate the Fresh Start program seriously consider that the current estimates are significantly lower than those related to the launch year.

In the alternative, if the Board still has concerns regarding the cost of the program at the lower estimated annual cost, we would suggest that the program be modified rather than eliminated. Faced with the possibility of eliminating the Fresh Start program, several USF Working Group members at the Workshops expressed a desire to revisit the program structure and provide recommendations regarding potential modifications to help address concerns about the program cost. We fully support that approach.

After such a review, the Board could consider minor modifications that could be made to help reduce the budget or more significant program design changes that could dramatically change the expected funding level. However, any potential redesign for the Fresh Start program should consider the estimated cost under the new structure in conjunction with the potential impact on customers under the modified program. Participants in this review process would not need to start from scratch since an original USF subcommittee had already reviewed alternatives that can be revisited.

We firmly believe that it is worthwhile to retain some form of the arrearage forgiveness program to help customers transition to affordable energy bills. Without such a program in place, a potential disconnect between customers' current bills and arrearages may be created. However, an arrearage forgiveness program can encourage customers to modify their payment behavior and address their previous payment history.

Customer Communications

We agree with both the APPRISE evaluation report and the Straw Proposal in regard to improving communications with both existing and potential USF participants. We also agree with the Straw Proposal that the use of an experienced external party is warranted. A communications expert would have the substantial information available from the evaluation report. Combining that knowledge with input from parties will provide the opportunity to refine messages and develop stronger resource materials. Hopefully, an experienced firm could also create an effective plan to address language and literacy barriers.

We are not advocating a recurring expense for the development of a communications strategy. Instead, we would consider it to be more of a "Starter Kit" that would be a valuable resource for all parties— state agencies, CAP agencies, utilities, etc. Accordingly, to make this initial investment in communications of the most value, it should be based upon the anticipated program structure for the 2007-08 program year, after implementation of any program design changes.

Program Measures

We are in full support of Board Staff's decision to consider establishing performance measures at this time. The APPRISE report provides a great source for baseline data for any performance measures selected. While it may be desirable to track and report many different statistics, only a few key measures should be used to assess the overall success of the program. Numerous initial suggestions were made at the Workshops. Several Working Group members expressed interest in exploring suggestions further and providing recommendations to the Board. We are happy to participate in this effort.

General Considerations for Any Potential Changes

Based upon experiences with the initial launch and the complexity of a statewide/inter-agency initiative, we would request that any decision provide sufficient lead time for implementation that includes program coding, testing, staff training and development of communication materials. Additionally, it would also be extremely helpful if the Board could issue guidance as to when implementation issues can be considered within the scope of technical/administrative decisions as opposed to broader refinements of policy. Clearer rules regarding when issues need to be decided by the Board itself should expedite resolution of any implementation issues.

Addressing the Needs of Deliverable Fuel Customers

Through the public hearing process and the Energy Transition Report to Governor Corzine, several parties have raised the issue of expanding USF coverage and/or Comfort Partners to deliverable fuel customers. While this was not raised in the Straw Proposal, we believe it is critical that this issue be clearly addressed at this time. We do not doubt that the advocacy groups have raised valid concerns about the need to enhance the safety net available to customers who heat their homes with deliverable fuels. Eligible deliverable fuel customers are already screened for USF benefits for both their electric usage and for any non-heat related gas. They may have a deliverable fuel burden that exceeds 3% of their income but they should not be entitled to any additional USF benefit for that burden. The USF program is funded by a portion of the Societal Benefits surcharge on the bills of electric and gas customers. It should not be used to provide benefits regarding deliverable fuels. If the need for such benefits exists, advocacy groups should address that issue in Trenton and, if such funding is to be provided, the Legislature must establish a means to have all deliverable fuel customers equitably support the cost of providing this societal benefit. It is certainly not reasonable for all utility customers to be forced to support the costs of benefits for deliverable fuel customers with no contribution from other customers being served by deliverable fuels.

Thank you for the opportunity to provide comments. The Companies look forward to working with the Board and the USF Working Group on the continued refinement of the already successful USF program.

Respectfully,

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